

TOWN OF CHARLESTON

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2006

TOWN OF CHARLESTON
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ACCOUNTANT'S REVIEW REPORT

Honorable Town Board
Town of Charleston
Charleston, UT

August 10, 2007

We have reviewed the accompanying financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Town of Charleston as of and for the year ended June 30, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Town of Charleston.

A review consists principally of inquiries of the Town personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 27, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have reviewed the supplementary information from information that is the representation of management, without audit. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Based on our review, we are not aware of any material modification that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Charleston, we offer readers of Charleston's financial statements this narrative overview and analysis of the financial activities of the Town of Charleston for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements that follows this section.

FINANCIAL HIGHLIGHTS

- As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$250,282. Of which, \$23,752 is reserved for work on roads, \$15,316 is reserved for debt service on the Tax Revenue Bond. The remaining fund unreserved balance in the General Fund is \$185,522 and in the Perpetual Cemetery Fund is \$25,692.
- The total net assets of \$2,522,405 are made up of \$799,335 in capital assets, net of related debt, \$15,316 restricted for debt service, \$1,474,871 restricted for investment in joint venture, and \$232,883 in other net assets.

REPORTING THE TOWN AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the Town of Charleston's basic financial statements. Charleston's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Charleston's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Charleston's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Charleston is improving or deteriorating. However, you will also need to consider other non-financial factors.

- *The statement of activities* presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Charleston that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Charleston also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town are governmental funds.

• **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and Perpetual Cemetery Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may over time serve as a useful indicator of a government's financial position. In the case of Charleston, assets exceed liabilities by \$2,522,405.

By far the largest portion of Charleston's net assets is reflected in its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the Town's net assets and change in net assets:

Town of Charleston's Net Assets

	Governmental Activities	
	2006	2005
Current and other assets	\$ 1,741,962	\$ 1,615,036
Capital assets	1,035,391	1,052,300
Total assets	<u>2,777,353</u>	<u>2,667,336</u>
Other liabilities	29,892	62,712
Long-term liabilities outstanding	225,056	250,000
Total liabilities	<u>254,948</u>	<u>312,712</u>
Net assets:		
Invested in capital assets, net		
of related debt	799,335	791,300
Restricted		
Debt Service	15,316	14,119
Investment in Joint Venture	1,474,871	1,389,584
Unrestricted	232,883	159,621
Total net assets	<u>\$ 2,522,405</u>	<u>\$ 2,354,624</u>

Town of Charleston's Changes in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 41,944	\$ 35,006
Capital grants and contributions	28,455	32,294
General revenues:		
Property taxes	17,657	17,455
General sales and use tax	98,621	79,385
Other taxes	45,269	36,883
Unrestricted investment earnings	24,818	22,814
Gain (Loss) on invest.in Joint Venture	85,287	11,564
Total revenues	<u>342,051</u>	<u>235,401</u>

Expenses:

General government	149,982	140,632
Highways and public works	9,096	2,795
Parks and recreation	6,344	9,766
Cemetery	2,415	143
Interest on long-term debt	6,433	6,708
Total expenses	174,270	160,044
Increase in net assets	167,781	75,357
Net assets - beginning	2,354,624	2,279,267
Net assets - ending	<u>\$ 2,522,405</u>	<u>\$ 2,354,624</u>

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As of June 30, 2006, the Town's governmental funds (General and Cemetery) reported combined fund equity of \$250,282. This represents an increase of \$74,367 over last year's ending balances. The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 68.3% of total general fund revenues. The largest element of taxes is sales and use taxes as it has been for the last several years. It represents 61.1% of total tax revenues and 41.8% of total general fund revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$197,215 to a final budget of \$232,693. Major contributing factors in the increase were additional administrative, road repairs, and town celebration expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The Town of Charleston's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$1,035,391 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure (streets, sidewalks, etc.), and machinery and equipment.

Town of Charleston's Capital Assets

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Land	\$ 27,460	\$ 27,460
Buildings	818,249	843,141
Improvements	62,986	66,135
Equipment	15,088	
Infrastructure	<u>111,608</u>	<u>115,564</u>
Total net assets	<u>\$1,035,391</u>	<u>\$1,052,300</u>

Major capital asset events during the current fiscal year included the following:

- Dump Truck \$7,685
- Mower 7,724

Additional information on the Town's capital assets can be found in the footnotes to this financial report.

Long-term debt - At the end of the current year, the Town had total debt outstanding of \$236,056. All of which is a CIB Loan for the construction of the park pavilion.

Town of Charleston Outstanding Debt – Tax Revenue Bond

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
CIB Bond	<u>\$236,056</u>	<u>\$261,000</u>

Additional information on the Town's long-term debt can be found in the footnotes to this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The General Fund budget for the fiscal year-ending June 30, 2007 reflects a decrease in spending of 14% over the final budget for the fiscal year-ended June 30, 2006.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Charleston's finances for all those with an interest in the Town's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Town Clerk, Town of Charleston, 3454 W. 3400 S., Heber, UT 84032.

BASIC FINANCIAL STATEMENTS

TOWN OF CHARLESTON
Statement of Net Assets
June 30, 2006

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 204,628
Restricted Cash	15,316
Accounts Receivable, net	
Property Tax Receivable	14,888
Sales Tax Receivable	20,287
Energy Tax Receivable	5,960
Intergovernmental Receivable	6,012
Capital Assets (net of accumulated depreciation):	
Land	27,460
Buildings	818,249
Improvements Other Than Buildings	62,986
Equipment	15,088
Infrastructure	111,608
Other Assets	
Investment in Joint Venture	1,474,871
Total Assets	<u>2,777,353</u>
LIABILITIES	
Accounts Payable	2,425
Accrued Interest Payable	2,083
Deferred Revenue	14,384
Noncurrent Liabilities:	
Due Within One Year	11,000
Due In More Than One Year	225,056
Total Liabilities	<u>254,948</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	799,335
Restricted	
Debt Service	15,316
Investment in Joint Venture	1,474,871
Unrestricted	232,883
Total Net Assets	<u>\$ 2,522,405</u>

See accompanying notes and accountant's report

TOWN OF CHARLESTON
Statement of Activities
For the Year Ended June 30, 2006

Function/Programs	Program Revenues				Net (Expenses) Revenues & Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental Activities:					
General Government	\$ 149,982	\$ 22,779	\$ -	\$ -	\$ (127,203)
Highways and Public Works	9,096	-	-	28,455	19,359
Parks and Recreation	6,344	11,865	-	-	5,521
Cemetery	2,415	7,300	-	-	4,885
Interest on Long-Term Debt	6,433	-	-	-	(6,433)
Total Primary Government	174,270	41,944	-	28,455	(103,871)

General Revenues:	
Property Tax	17,657
Sales and Use Tax	98,621
Energy Tax	45,112
State Liquor Tax	157
Unrestricted Investment Earnings	24,818
Gain (Loss) on Investment in Joint Venture	85,287
Total General Revenues	271,652
Change in Net Assets	167,781
Net Assets - Beginning	2,354,624
Net Assets - Ending	\$ 2,522,405

See accompanying notes and accountant's report

TOWN OF CHARLESTON
Balance Sheet
Governmental Funds
June 30, 2006

	<u>Major Fund</u>		<u>Non-Major</u>	
	<u>General</u>	<u>Perpetual</u>	<u>Debt</u>	<u>Total</u>
	<u>Fund</u>	<u>Cemetery</u>	<u>Service</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 178,936	\$ 25,692	\$ -	\$ 204,628
Restricted Cash			15,316	15,316
Receivables (net):				
Property Tax	14,888		-	14,888
Sales Tax	20,287	-	-	20,287
B & C Roads	6,012			6,012
Energy Tax	5,960	-	-	5,960
Total Assets	<u>\$ 226,083</u>	<u>\$ 25,692</u>	<u>\$ 15,316</u>	<u>\$ 267,091</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 2,425	\$ -	\$ -	\$ 2,425
Deferred Revenue	14,384	-	-	14,384
Total Liabilities	<u>16,809</u>	<u>-</u>	<u>-</u>	<u>16,809</u>
Fund Balances:				
Reserved for:				
Roads	23,752	-	-	23,752
Debt Service		-	15,316	15,316
Unreserved, reported in:				
General Fund	185,522	-	-	185,522
Perpetual Cemetery Fund	-	25,692		25,692
Total Fund Balances	<u>209,274</u>	<u>25,692</u>	<u>15,316</u>	<u>250,282</u>
Total Liabilities and Fund Balances	<u>\$ 226,083</u>	<u>\$ 25,692</u>	<u>\$ 15,316</u>	<u>\$ 267,091</u>

See accompanying notes and accountant's report

TOWN OF CHARLESTON
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2006

Total Governmental Funds Balances	\$ 250,282
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,035,391
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Other long-term assets not available to pay for current period expenditures	1,474,871
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Long-term liabilities, including loans, are not due and payable in the current period and therefore are not reported in the funds	<u>(238,139)</u>
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Total Net Assets of Governmental Activities	<u><u>\$ 2,522,405</u></u>
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See accompanying notes and accountant's report

TOWN OF CHARLESTON
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>Major Fund</u>		<u>Non-Major</u>	
	<u>General</u>	<u>Perpetual</u>	<u>Debt</u>	<u>Total</u>
	<u>Fund</u>	<u>Cemetery</u>	<u>Service</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
REVENUES				
Taxes	\$ 161,390	\$ -	\$ -	\$ 161,390
Licenses and Permits	18,684	-	-	18,684
Intergovernmental	28,612	-	-	28,612
Charges for Services	11,865	7,300	-	19,165
Miscellaneous	5,991	1,100	1,197	8,288
Total Revenues	<u>226,542</u>	<u>8,400</u>	<u>1,197</u>	<u>236,139</u>
EXPENDITURES				
Current:				
General Government	129,664	-	-	129,664
Highways & Streets	12,569	-	-	12,569
Parks and Recreation	6,280	-	-	6,280
Cemetery	2,415	-	-	2,415
Debt Service:				
Principal Retirement			24,944	24,944
Interest and Fees			6,525	6,525
Total Expenditures	<u>150,928</u>	<u>-</u>	<u>31,469</u>	<u>182,397</u>
Excess (Deficit) of Revenues Over (Under)				
Expenditures	<u>75,614</u>	<u>8,400</u>	<u>(30,272)</u>	<u>53,742</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	9,256	-	31,469	40,725
Operating Transfers Out	(31,469)	(9,256)	-	(40,725)
Distributions from Joint Venture	20,625	-	-	20,625
Total Other Financing Sources (Uses)	<u>(1,588)</u>	<u>(9,256)</u>	<u>31,469</u>	<u>20,625</u>
Net Change in Fund Balances	74,026	(856)	1,197	74,367
Fund Balances - Beginning	135,248	26,548	14,119	175,915
Fund Balances - End	<u>\$ 209,274</u>	<u>\$ 25,692</u>	<u>\$ 15,316</u>	<u>\$ 250,282</u>

See accompanying notes and accountant's report

TOWN OF CHARLESTON
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances of Governmental Funds	\$ 74,367
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(16,909)
The net effect of their investment in the joint venture's net income and capital contributions from developers is to increase net assets	85,287
The Issuance of long-term debt (e.g. bonds, leases) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	27,119
Some expenses recorded in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(2,083)</u>
Change in net assets of governmental activities	<u><u>\$ 167,781</u></u>

See accompanying notes and accountant's report

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Town of Charleston, Utah (Town) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the Town's accounting policies.

Financial Reporting Entity

The Town of Charleston operates under a Town Board form of government and provides the following services as authorized by its charter: public safety (police and fire), highway and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Some of these services are provided under contract with other entities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *general fund* is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The *perpetual cemetery fund* accounts for the legally restricted principle trust amounts received and related interest income. The interest portion can be used to maintain the community cemetery.

The Town also reports a debt service fund that is a non-major governmental fund.

The Town has no proprietary funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statement.

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

Assets, Liabilities, and Net Assets

A. Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term certificates of deposit, and deposits with the State of Utah Public Treasurer Investment Fund.

B. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as "restricted cash" on the Statement of Net Assets and on the Balance Sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

C. Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Infrastructure	30-50
Machinery and equipment	3-10

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

D. Taxes

In the State of Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The Town Board is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Board must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

E. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

F. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

H. Deferred Revenue

Property taxes due November 30, 2006 and any delinquent tax are shown as deferred revenue.

I. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *total governmental funds balances* and *net assets* of governmental fund activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Asset Differences:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the costs of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Town as a whole.

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 – RECONCILIATION (*Continued*)

Cost of capital assets	\$ 1,355,853
Accumulated depreciation	<u>(320,462)</u>
Net adjustment to increase <i>total governmental fund</i> <i>balances</i> to arrive at <i>net assets</i> – governmental activities	<u><u>\$ 1,035,391</u></u>

Other Long-term Asset Differences:

The Town's investment in the joint venture of Heber Power & Light is not a financial resource and therefore, is not reported in the funds. The net adjustment to increase *total governmental fund balances* to arrive at *net assets* – governmental activities is \$1,474.871.

Other Long-term Liability Differences:

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund statements. The details of this \$238,139 difference are as follows:

Tax Revenue Bond Payable	\$ 236,056
Accrued interest payable	<u>2,083</u>
Net adjustment to reduce <i>total governmental fund</i> <i>Balances</i> to arrive at <i>net assets</i> – governmental activities	<u><u>\$ 238,139</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *excess (deficit) of revenues over (under) expenditures of total governmental funds* and *changes in net assets* of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

Capital outlay	\$ 15,409
Depreciation expense	<u>(32,318)</u>
Net adjustment to increase <i>net change in fund balance</i> – <i>total governmental activities</i> to arrive at <i>change in net assets</i> <i>of governmental activities</i>	<u><u>(\$ 16,909)</u></u>

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 – RECONCILIATION (*Continued*)

Another element of that reconciliation states that “The net effect of their investment in the joint venture’s net income and capital contributions from developers is to increase net assets.”

Town’s share of Joint Venture’s net income (or loss)	\$ 14,173
Town’s share of Joint Venture’s capital contributions from developers	91,739
Distributions to the Town	<u>(20,625)</u>
Net adjustment to increase <i>net change in fund balance – total governmental activities</i> to arrive at <i>change in net assets of governmental activities</i>	<u>\$ 85,287</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The net adjustment to decrease *net change in fund balance – total governmental activities* to arrive at *changes in net assets of governmental activities* is as follows:

Accrued interest payable	<u>\$ 2,083</u>
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NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to June 1st, the budget officer submits to the Board a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments prior to adoption.
3. Prior to June 22nd, the budget is legally enacted through passage of a resolution.
4. The budget officer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Board.

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3 - BUDGETS (Continued)

5. Formal budgetary integration is employed as a management control device during the year for the General Fund,.
6. Budgets for the General Fund are presented on a basis consistent with generally accepted accounting principles (GAAP).
7. Budgeted amounts shown in the required supplementary information are as originally adopted and as final amended by the Town Board.
8. Encumbrances lapse at year end and are subject to reappropriation. Therefore no encumbrances are included in the financial statements.

NOTE 4- DEPOSITS AND INVESTMENTS

Cash and investment resources consist of checking accounts, Utah State Treasurers' Pool, certificates of deposits and passbook savings. The different funds combine their resources to form a pool of cash which enables the Town to manage idle cash most effectively.

The Town follows the requirements of the Utah Money Management Act in handling its depository and temporary investment transactions. This law requires the depositing of Town funds in a "qualified depository", defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2006, the Town's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance</u> <u>June 30, 2006</u>
Regular Checking Account	Insured	\$100,000
Regular Checking Account	Uninsured	32,035
		<u>\$132,035</u>

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – CASH AND INVESTMENTS (Continued)

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the Town and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Town to invest in negotiable or non-negotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s, bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurer’s Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities In Years			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 88,740	\$ 88,740	\$ -	\$ -	\$ -

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – CASH AND INVESTMENTS (*Continued*)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk – The Town follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. Town funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Town to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The Town considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The Town has no investment policy that would further limit its investment choices. The PTIF is unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have an investment policy for custodial credit risk.

The cash and investments described above are included on the Statement of Net Assets as per the following reconciliation:

Deposits	\$ 131,204
Investments	<u>88,740</u>
Total Cash	<u>\$219,944</u>
Government-Wide	
Cash and Cash Equivalents	\$204,628
Restricted Cash and Cash Equivalents	<u>15,316</u>
Total Cash	<u>\$219,944</u>
Net Cash on Statement of Net Assets	<u>\$219,944</u>

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 – RECEIVABLES

Property taxes are levied on January 1, 2006, due in November 2006, and are budgeted for the 2007 fiscal year. Even though they are not intended to fund the 2006 fiscal year, they must be recognized as an asset because the Town has an enforceable claim to the revenue. The taxes that have been remitted to the Town within 60 days of the end of the current fiscal period have been recognized as revenue. The uncollected, measurable amounts have been accrued as deferred revenue.

The following is a summary of receivables at June 30, 2006:

	Governmental Activities
Property Tax Receivable	\$ 14,888
Sales Tax Receivable	20,287
Energy Tax Receivable	4,502
Telecom Tax Receivable	1,458
B&C Road Receivable	6,012
Total	<u>\$ 47,147</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

Primary Government Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 27,460	\$ -	\$ -	\$ 27,460
Total capital assets not being depreciated	<u>27,460</u>	<u>-</u>	<u>-</u>	<u>27,460</u>
Capital assets being depreciated:				
Buildings	995,700	-	-	995,700
Machinery and equipment	25,000	15,409	-	40,409
Improvements O/T Buildings	94,478	-	-	94,478
Infrastructure	197,806	-	-	197,806
Total capital assets being depreciated	<u>1,312,984</u>	<u>15,409</u>	<u>-</u>	<u>1,328,393</u>
Less accumulated depreciation for:				
Buildings	152,559	24,892	-	177,451
Machinery and equipment	25,000	321	-	25,321
Improvements O/T Buildings	28,343	3,149	-	31,492
Infrastructure	82,242	3,956	-	86,198
Total accumulated depreciation	<u>288,144</u>	<u>32,318</u>	<u>-</u>	<u>320,462</u>
Total capital assets, being depreciated, net	<u>1,024,840</u>	<u>(16,909)</u>	<u>-</u>	<u>1,007,931</u>
Governmental activities capital assets, net	<u>\$ 1,052,300</u>	<u>\$ (16,909)</u>	<u>\$ -</u>	<u>\$ 1,035,391</u>

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 28,042
Highways and Public Works	4,212
Parks and Recreation	<u>64</u>
Total depreciation expense – governmental activities	<u>\$ 32,318</u>

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the Town for the year ended June 30, 2006.

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
\$272,000 2003 Series Sales Tax Revenue Bond, principal and interest due annually, beginning May 23, 2006 - interest of 2.5%	\$ 261,000	\$ -	\$ 24,944	\$ 236,056	\$ 11,000

Principal and interest requirements to retire the Town's long-term obligations are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 11,000	\$ 6,250	\$ 17,250
2008	12,000	5,975	17,975
2009	12,000	5,675	17,675
2010	12,000	5,375	17,375
2011	12,000	5,075	17,075
2012-2016	67,000	20,600	87,600
2017-2021	74,000	13,675	87,675
2022-2024	<u>36,056</u>	<u>3,675</u>	<u>39,731</u>
Total	<u>\$236,056</u>	<u>\$66,300</u>	<u>\$302,356</u>

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 – INVESTMENT IN JOINT VENTURE

Charleston is a party to a joint venture with Heber City and Midway City. The joint venture, Heber Light and Power Company, was created by the three municipalities to provide electric services to their communities. The joint venture is governed by the Power Board elected from the Mayors and Town Councils of the participating municipalities. The Power Board governs the operations of the utility through management employed by the Board. Since the joint venture is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing. Since the governing Board is made up of Mayors and appointees from the Town councils, each participating municipality has indirect control over these matters. The percentage share of each participant is as follows:

Heber City	75.0%
Charleston	12.5%
Midway City	<u>12.5%</u>
	<u>100.0%</u>

Separate audited financial statements are available from Heber Light and Power Company, 31 South 100 West, Heber City, UT.

Summary information of the joint venture as of December 31, 2005, the last date of audit, is as follows:

	<u>Joint Venture</u>	<u>Charleston's Share</u>
Assets	<u>\$19,668,879</u>	<u>\$ 2,458,610</u>
Liabilities	\$ 7,869,914	\$ 983,739
Equity	<u>11,798,965</u>	<u>1,474,871</u>
	<u>\$19,668,879</u>	<u>\$ 2,458,610</u>
Operating Revenue	\$ 8,953,736	\$ 1,119,217
Less: Cost of Sales	<u>7,561,089</u>	<u>945,136</u>
Gross Profit (Loss)	1,392,647	174,081
General & Administrative Expenses	<u>1,005,162</u>	<u>125,645</u>
Income (Loss) from Operations	387,485	48,436
Other Income and (Expense)	(274,102)	(34,263)
Net Income (Loss)	113,383	14,173
Capital Contributed by Sub-divider	733,913	91,739
Less Participant Withdrawals	(165,000)	(20,625)
Net Change in Retained Earnings	<u>\$ 682,296</u>	<u>\$ 85,287</u>

TOWN OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 - INVESTMENT IN JOINT VENTURE (Continued)

The joint venture has the following debt:

	<u>Current Portion</u>	<u>Total Amount</u>
Revenue Bonds – 3.25 to 5.00% - Series 2002	\$ 316,591	\$ 7,099,713
Meter Deposits		<u>32,837</u>
	<u>\$ 316,591</u>	7,132,550
Less Current Portion		(316,591)
Net Long-Term Debt		<u>\$6,815,959</u>

NOTE 9 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Town to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the Town pays in the event of any loss. The Town also has purchased a workers' compensation policy. Over the last three years, losses have not exceeded coverage.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHARLESTON
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Totals	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 31,500	\$ 161,291	\$ 161,390	\$ 99
Licenses and Permits	27,750	17,315	18,684	1,369
Intergovernmental	27,000	27,553	28,612	1,059
Charges for Services	11,000	17,218	11,865	(5,353)
Miscellaneous	5,600	6,236	5,991	(245)
Total Revenues	<u>102,850</u>	<u>229,613</u>	<u>226,542</u>	<u>(3,071)</u>
EXPENDITURES				
Current:				
General Government	131,000	157,832	129,664	28,168
Highways and Public Works	35,000	48,166	12,569	35,597
Parks and Recreation	8,215	6,280	6,280	-
Cemetery	5,000	2,415	2,415	-
Interest and Fees				-
Total Expenditures	<u>179,215</u>	<u>214,693</u>	<u>150,928</u>	<u>63,765</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>(76,365)</u>	<u>14,920</u>	<u>75,614</u>	<u>60,694</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In (Out)	(18,000)	(18,000)	(22,213)	(4,213)
Distributions from Joint Venture	20,625	20,625	20,625	-
Total Other Financing Sources (Uses)	<u>2,625</u>	<u>2,625</u>	<u>(1,588)</u>	<u>(4,213)</u>
Net Change in Fund Balance	(73,740)	17,545	74,026	56,481
Fund Balances - Beginning	135,248	135,248	135,248	-
Fund Balances - Ending	<u>\$ 61,508</u>	<u>\$ 152,793</u>	<u>\$ 209,274</u>	<u>\$ 56,481</u>

See accompanying notes and accountant's report